Four More Common HMDA Reporting Errors

In two past Knowledge Center posts (insert hyperlinks to posts), we discussed eight common errors that lenders encounter when satisfying reporting requirements under the Home Mortgage Disclosure Act (HMDA). The errors that we reviewed included:

- Failing to capture all HMDA-reportable transactions
- Reporting the incorrect loan amount
- Assigning the wrong geographies via geocoding
- Making errors in calculating the rate spread
- Using the wrong Purchaser Type code
- Inaccurately reporting Total Income
- Recording an inaccurate Action Date
- Failing to capture Government Monitoring Information

These are a handful of common errors identified by regulators and observed in ADI's experience when assisting clients with their HMDA reporting. In this post, we review four additional HMDA reporting errors that present challenges to many lenders.

1) Reporting Cash-out Refinancing Rather than Refinancing for the Loan Purpose

Applications should be reported on a LAR as either a refinance or a cash-out refinance depending upon the products and procedures of a specific financial institution. This means that each financial institution may have a slightly different definition of a refinance or a cash-out refinance from other lenders. This can lead to confusion from auditors and examiners, so it is important that lenders understand how this applies to their organizations.

The HMDA commentary provides three different examples to help financial institutions determine which purpose to use:

- When a financial institution has clearly defined cash-out and non-cash out products
- When a financial institution does not have any defined cash-out products
- When a financial institution has a mix of defined and not defined cash-out products

The biggest factor to consider in differentiating between a refinance and a cash-out refinance is whether an institution defines a cash-out product differently than a non-cash out product. Clearly defining products like this is a practice utilized by the secondary market, as there is often a better rate available for a refinance that does not offer cash back to the borrower. Lenders should look to the product guidelines and report each loan accordingly.

If a financial institution does not have refinance products that are specifically categorized as "cash-out" refinances, then it should report all applicable entries on the HMDA LAR as a refinance. The result of this is that such institutions will never report a cash-out refinance on their LARs, even if they originate loans where the borrowers get funds back at closing.

The rules are a bit more challenging when a financial institution offers products that differentiate between cash-out and non-cash out refinances and other loan products that do not differentiate between them. For example, a financial institution may offer both loans on the secondary market with defined cash-out products and in-house products that do not differentiate between a cash out and non-cash out refinance.

Many institutions report all in-house products as refinances and report their secondary market loans as refinances or cash-out refinances, depending on the defined product and amount of cash a borrower receives. That said, to take a more conservative approach, and as a best practice to ensure compliance, a lender can define a difference for a cash-out and non-cash out product for all in-house loans. A clearly defined product will help to avoid potential examiner criticism in this area. See **Comment 4(a)(3)-2**

2) Reporting Withdrawn Rather than Approved Not Accepted
Withdrawn should be used in reporting Action Taken when the applicant expressly requests to withdraw the application before a credit decision has been made or before the file is closed for incompleteness. See **Comment 4(a)(8)(i)-5**

Approved but Not Accepted should be used when the institution approves the application, according to the requested credit terms, but the applicant fails to respond within the specified time o
r when all underwriting conditions have been met but the applicant expressly withdrew before the credit decision was made. See **Comment 4(a)(8)(i)-3** and **Comment 4(a)(8)(i)-13**

3) Reporting the Wrong Credit Score or Not Reporting a Score
An institution must report both the credit score and the name and version of the scoring model that was used when making the credit decision. If multiple scores were relied upon, then the institution should report only one of those scores. When this occurs, deciding which score to report (for example, the middle score on a tri-merge credit report) is up to the institution but the method should remain consistent throughout the HMDA LAR. On the other hand, if the loan had more than one applicant and the institution relied on only a single credit score then that score should be reported for either the applicant or the co-applicant.

If a credit scoring model was used that was not an option provided by the HMDA guidelines, then the institution should report this data point as "other". If this is selected, the specific credit scoring model that was used must be entered.

Reporting Credit Score as "NA" is acceptable when the:

- Loan is a purchased loan;
- Institution did not rely on a credit score in making the credit decision;
- Loan was closed for incompleteness or withdrawn before a credit decision was made; or,
- Applicant is not a natural person.

See **Comment 4(a)(15)**

4) Reporting "NA" or "0" for Lender Credits and Discount Points on Originated and Purchased Loans
When there is no lender credit for a loan, the LAR field should remain blank. Likewise, if there are no discount points, that field should be reported as blank. Lenders often make the mistake of reporting "0" or NA in these fields, both of which will be identified as errors on a LAR. Conversely, if there are no Origination Charges, that field should be reported as "0". Guidance for each reportable field is in the latest Guide to HMDA Reporting – Getting it Right.

What Lenders Can Do to Mitigate These Errors

Minimizing the frequency of the above-mentioned and other HMDA reporting errors requires a solid understanding of reporting requirements and how data points flow through loan origination systems toward eventual HMDA reporting. When assisting clients, ADI recommends steps to assess and correct common errors like the four discussed above, including:

- Review HMDA policies and training for clarity in how to correctly record HMDA-reportable data;
- Assess automated systems to ensure they are accurately recording HMDA-reportable data points;
- Establish controls to minimize data entry errors;
- Evaluate processes that transfer data between systems to ensure transferred data are accurate and correctly mapped for the HMDA submission;
- Compare the frequency of reportable key fields to peer lenders and identify patterns that may need attention;
- Routinely audit a sample of applications to determine the accuracy of the recorded data, based on source documentation to identify and correct errors ahead of LAR submission; and
- Conduct a full HMDA LAR audit if field- or record-level error rates in the sample are above thresholds established by the CFPB.